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C O N F I D E N T I A L SECTION 01 OF 02 KAMPALA 000561

SIPDIS

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TAGS: PGOV PREL UG IR

SUBJECT: UGANDAN PRESIDENT SEEKS OIL SECTOR SUPPORT IN IRAN

REF: KAMPALA 492

Classified By: P/E Chief Kathleen FitzGibbon for reasons 1.4 (b) and (d).).

¶1. (C) Summary: Iran agreed to provide funding and expertise to Uganda's fledgling oil industry during a visit by Ugandan President Museveni from May 15-18. Museveni raised the issue of Iran's nuclear program, arguing that the trouble it was causing Iran internationally was doing more harm than good. We remain concerned about the implications of Iran's promised investment in the oil sector and for Uganda's foreign policy decision-making. End Summary.

¶2. (U) Museveni fulfilled a "longstanding commitment" to visit Iran from May 15-18 (reftel). According to a State House press release, Iran agreed to fund the entire value chain of Uganda's oil production. Iran would jointly fund an oil refinery with Uganda. Iran agreed to train Ugandans in its University of Petroleum Studies and other institutions in Iran. Iran also would consider Uganda's request to supply fuel for Uganda's thermal power plant. They agreed to cooperate in production, processing and marketing of agro-products and mechanization of agriculture and set up a free trade zone. Museveni invited President Ahmadinejad to visit Uganda; Ahmadinejad accepted.

¶3. (C) Minister of State for Foreign Affairs Henry Okello Oryem, who traveled to Iran with Museveni, gave Charge a debrief on June 1. Oryem said that Museveni outlined his request for assistance for an oil refinery to Iranian officials, including Ahmadinejad. The Iranians were skeptical that Uganda's oil would be a commercially viable export given its waxy consistency. Museveni explained that the refinery would produce diesel fuel for use in Uganda and its neighboring countries as well as to run its thermo-generators for electricity. According to Oryem, the Iranians said they would consider the refinery's viability and assist in other areas of oil production.

¶4. (C) Oryem said that Museveni received the U.S. Government's message that the Charge delivered on Iran's U.N. sanctions violations and support for extremism (reftel). Oryem said that the British High Commissioner also expressed concerns about the Iran trip. Oryem said that Museveni felt he had to raise the issue of Iran's nuclear program with Ahmadinejad because Uganda was a member of the U.N. Security Council. However, Museveni discussed the issue in a typically "African" way, which was non-confrontational, according to Oryem. Museveni told Ahmadinejad that Iran did not need a nuclear program, given that it had already industrialized with the resources that it had. Moreover, Museveni argued, since Iran did not need a nuclear program, Iran's nuclear program was causing Iran more harm internationally than any benefits it could bring economically.

¶5. (C) Museveni further made his case by informing Ahmadinejad that Uganda had a large uranium deposit but had decided not to exploit it. If Uganda decided to use it in the future, it would be to develop a nuclear power plant in

consultation with and as part of a regional plan for cheap energy supply. Uganda would only pursue such a plan with its east and central African membership organizations and in compliance with international standards. The Iranian president listened, but was non-committal, according to Oryem.

¶6. (C) Tamoil East Africa Director Habib Kagimu saw President Museveni after his return from Iran. Libyan-owned Tamoil has the contract to build a pipeline from El Doret, Kenya to Jinja, Uganda to bring fuel from the port into Uganda. Kagimu wanted and received assurances from Museveni that the Iranian deal would not interfere with the pipeline. However, Kagimu told P/E Chief on May 25 that Foreign Minister Sam Kutesa had been pushing Museveni to go to Iran to secure funding for the refinery. Kagimu stated that Kutesa and First Lady Janet Museveni, who are the financiers of Aggreko, an oil services company, and Kenloyd, a fuel importing/exporting company owned by Kutesa's son, want to corner the market on the production and distribution of Uganda's future oil products. Kutesa allegedly believes that Iranian funding will allow their companies to circumvent normal procurement procedures.

¶7. (C) According to Kagimu, Kutesa persuaded Museveni to seek Iranian support to undermine Libya's investment in the pipeline, a contract that Kutesa's company sought, but lost to Tamoil. (Note: Construction of the pipeline is stalled over a disputed land title, which Kutesa and presidency insider, Elly Kayanjo, have allegedly engineered. Post has been following the case because the genuine landowner is an American citizen. The corrupt twists and turns in the case continue to defy legal remedy, but Tamoil reached a deal with

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the parties to the court case to buy the land from whomever wins. End Note.)

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COMMENT

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¶8. (C) Museveni's trip to Iran raised eyebrows in Kampala. We are not surprised that Museveni raised the issue of Iran's nuclear program, but do not expect Uganda to press the case any harder. It appears the focus of the visit was to secure funding for oil production facilities, which probably does not bode well for the future transparency of the sector. Oil companies in Uganda argue that an inland refinery would not likely be cost effective, as the market in the region is not large enough for the products it would make. The Iranians probably have similar concerns. Nevertheless, President Museveni reportedly continues to insist on a domestic refinery to boost Uganda's energy independence. Uganda's appeal to Iran on this issue demonstrates that, at some level, Museveni may know that finding an investor for his refinery pet project could be difficult.

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